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Accounting for an Automobile Finance Company

Graduation Thesis, by Anthony H. Braun, Pace Institute, New York

THE extensive growth of the automobile industry during the past twenty years has given rise to a very interesting system of financing the distribution of the product. Some institutions specialize in the financing of automobile transactions, while others engage therein in conjunction with the financing of transactions arising out of other industries.

The functions of these automobile banks, as we shall call them for convenience of expression, are to supplement existing local banking facilities; and they are made necessary by certain fundamental conditions peculiar to the merchandising of automobiles, both passenger cars and trucks, which demand specialized credit and banking service. These conditions may be explained as follows:

Manufacturers of automobiles, to sell them for the lowest possible price, must operate at a uniform rate the year round; but the retail sales of automobiles are greater at a certain season than at others. In the spring, when the retail sales of motor cars are the greatest, it would be impossible for the manufacturers to produce sufficient cars to meet that demand. In order, therefore, to manufacture at as even a rate as possible, cars must be stored during the season of lower sales awaiting the season of greater sales. The burden of storing the vehicles falls upon the distributor and dealer, since sufficient storage space would not be available at the factories, or, if available, the vehicles would not be near enough at hand for the dealer when his market begins to open.

Purchase by dealers for the purpose of stocking cars and the policy of selling on a deferred-payment plan require larger financial resources than the average dealer possesses, it being necessary for him to buy the cars almost entirely for cash and in turn sell them largely on credit. It has been estimated, indeed, that 65 per cent. of the passenger cars and 90 per cent. of the trucks are sold on time.

Before the existence of automobile banks, the dealer, to raise the necessary funds to finance his transactions, had to resort to the commercial banks; but, in periods of rapid expansion, they were unwilling to extend credit to the dealers in proportion to their requirements. This unwillingness on the part of commercial banks is due to the fact that the automobile, despite the assertions that it is a necessity, has always been looked upon by such banks as in a different class from staple products, and as involving large risks. The automobile bank was developed to meet the financial requirements incidental to this situation, and to enable the industry to grow as rapidly as the demand for its products required.

There are two different types of financing operations that are engaged in by automobile banks that will be described. First, these banks extend what is called wholesale credit to automobile dealers; second, these banks finance retail sales by purchasing from the dealers the instalment notes of responsible purchasers, whose credit the banks have investigated, such notes being taken by the dealer together with the cash payment in settlement of the selling price of the vehicle. The plans, both wholesale and retail, of the different automobile banks vary in certain details, but those to be described here are typical, in the most important phases, of all banks.

Wholesale Plan

To understand the operation of the wholesale plan, it is necessary to know the names applied to the organizations or individuals who partake in the distribution of the product after it leaves the manufacturer and before it reaches the consumer.

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The "distributor" is given exclusive control of sales for a specified large area. In addition to selling cars to the various dealers whom he may appoint, he also sells to consumers in a particular part of his territory.

The "dealer" is appointed by the distributor and is given a specified territory in which he has the sole right to sell the particular car or truck. All his purchases are made through the distributor.

The territory controlled by a dealer may be too large for him to work effectively, and he may appoint a "subdealer" or "subdealers" for different sections thereof. The subdealer makes his purchases through, and transacts all his business with, the dealer.

The financing conducted under the wholesale plan enables the distributor, dealer, or subdealer to secure funds with which to pay for the cars without waiting for their sale to, or at least without waiting for final payments from, customers. The merchant seeking the financing of a shipment files with the automobile bank, on a form provided by them, a financial statement such as is customarily required by other banking institutions.

The Automobile Bank

The automobile bank will examine and analyze the statement, and will notify both the shipper and the merchant when the statement has been approved. The merchant seeking the accommodation makes out an application for credit, giving the number of motor vehicles on which financing is desired. These forms are sent by the merchant to the shipper who will approve the application and forward the forms to the automobile bank for its approval. The automobile bank will then send one copy of the form to the merchant ordering and one copy to the shipper. Both the shipper and the proposed consignee will then have authority for the financing of a definite number of cars or trucks.

When the cars or trucks are shipped, the shipper draws a sight draft on the consignee merchant, with bill of lading attached, for the down payment, which is usually 10 or 15 per cent. of the invoice price plus the financing charges. The consignee then issues a promissory note, payable at the end of a specified number of months, to the order of the automobile bank for the balance of 85 or 90 per cent. of the invoice price, as the case may be. The automobile bank will then remit to the shipper the amount of the note less the financing charges, which, as noted above, had been included in the amount of the draft drawn on the consignee by the shipper. When the cars arrive, the merchant secures them from the carrier. However, in order to protect the bank, the merchant, in addition to the promissory note, executes a chattel mortgage giving the bank a lien on the cars financed, or he signs a trust receipt by which he acknowledges receipt of a specified number of cars which are stated by the trust receipt to be the property of the bank and held by the merchant in trust for the bank. The cars are identified by model, serial and motor numbers, and are stored under the control of the merchant.

The merchant also names a local bank through which he will make payments on his note to the automobile bank. The automobile bank gives into possession of this local bank, which acts as its agent in making collections from the dealer, the trust receipt as well as "releases from trust" for each car covered by the trust receipt.

When the merchant has an opportunity to sell a car, which he holds in trust, before the maturity of his note, he goes to the local (agent) bank and pays to them the amount necessary to release the particular car from the trusteeship under which he has held it—that is, he obtains a clear title in his own name to the car. The local bank receipts one copy of the "release from trust" form covering the particular car, and gives it to the merchant, who then has a clear title to the car and can proceed to sell it. The local bank endorses each release on the back of the trust receipt and forwards the amount collected to a trustee, as will be explained later under the heading "Methods Used in Automobile Banks to Secure Funds." If the car has been held under a chattel mortgage, a proper release from the mortgage would be executed at the time the merchant makes this payment.

In some cases, the cars financed are placed in a licensed public warehouse and a separate negotiable warehouse receipt is obtained in the name of the automobile bank for each car stored. As in the case of trust receipt, the warehouse receipts are sent to the local bank named by the merchant together with "releases from warehouse" covering each car financed. The procedure in releasing cars under the warehouse plan is is follows:

The merchant pays to the local bank the amount necessary to release the particular car and receives in return a "release from warehouse" form receipted by the local bank and the particular negotiable warehouse receipt, which was endorsed by the automobile bank before being sent to the local bank. The merchant can then obtain the car from the warehouse and, having legal title to it, can proceed to sell it.

Retail Plan

A car which was financed under the wholesale plan for a dealer may also be financed under the retail plan for the person to whom the car is sold.

The purchaser, under the retail plan, is required to make a cash payment equal to at least 30 per cent. of the selling price, which includes the factory list price, plus freight, war tax, and any extras. Since the dealer endorses all retail notes, he makes an investigation of the ability of the purchaser to make his instalment payments when due.

A conditional sales contract is executed between the seller and the purchaser, or in states where such contracts have no legal status, a chattel mortgage is given on the car sold. The original of the conditional sales contract is recorded, in states where recording is necessary to protect against third parties, the duplicate is sent to the automobile bank, and the triplicate is kept by the purchaser. The conditional sales contract, which is used in all but seven states, gives a schedule of the payments to be made by the purchaser and defines the rights of the seller in case of default on the part of the purchaser. The conditions may appear harsh, but the purchaser need have no fear of them if he intends to comply with the terms of his contract.

On the reverse side of the duplicate conditional sales contract, which is sent to the automobile bank, is the purchaser's statement as to his income, ownership of property, references, etc., which statement is used to determine if it is advisable to purchase the "offering" from the dealer. Attached to this duplicate copy is also a note executed by the purchaser, made payable to the order of the dealer at the office of the automobile bank, for the difference between the selling price of the car, plus the bank's financing charges, and the down cash payment. The note is payable in equal monthly instalments, and in no case are more than twelve instalments permitted. A schedule of payments appears on the note. Since the note is made payable to the dealer, it is necessary for him to endorse it before he forwards it to the automobile bank, and thus the bank can look to the dealer for payment in the event that it purchases the note and the purchaser does not meet his instalments when due. A series of notes, one for each instalment, may be used instead of a single note.

If, from the purchaser's statement and its own investigation, the bank deems it inadvisable to purchase the note, it will be necessary for the dealer to carry it until maturity, and since it would usually prove a hardship for the dealer to do so, he usually makes certain of the ability of the purchaser. On the other hand, if the bank decides to purchase the note, it will forward to the dealer the amount thereof, less, of course, the financing charge, which is included in the amount of the note. It will thus be seen that with the amount paid by the purchaser and the amount received from the automobile bank, the dealer has the full amount of the selling price, without waiting for the purchaser to make any of his instalment payments.

Methods Used by Automobile Banks to Secure Funds

The annual volume of business done by several of the larger automobile banks reaches from fifty to one hundred millions of dollars each. A brief explanation of the methods by which these banks secure their funds appears to be in order. The methods to be explained are not used by all the banks, but are used by several of the larger ones.

By one method, the automobile bank deposits with a trustee, under the terms of a trust deed, retail and wholesale notes which it purchases. Against this collateral, the automobile bank issues its own collateral notes which are sold to banks at prevailing discount rates for prime commercial paper. Before these collateral notes are delivered to the purchasing banks, it is necessary that they be authenticated by the trustee, whose duty it is to see that the collateral at all times exceeds, by the percentage stated in the trust deed, the total of the collateral notes outstanding.

From the above, it will be seen that it is necessary for the trustee to keep a record of all the collateral it holds, and also that it receive a daily report from the automobile bank of amounts received, covering instalments and payments on notes in trust. It is also necessary for the trustee to watch that payments are not overdue on any of the collateral, for a time specified in the trust deed. When such payments are overdue, the notes affected must be withdrawn from trust and returned to the automobile bank and, if necessary, new collateral deposited.

Another method of securing funds is by discounting with banks wholesale notes which it has purchased. This method needs no further explanation.

Both of these methods may be used concurrently, the extent to which more funds are raised by one than by the other being dependent upon the market demands for the particular kind of paper, and, consequently, the varying discount rates. The fact that by discounting wholesale notes and acceptances these notes become two-name paper, whereas the collateral notes are only single name, also enters into the situation.

Accounting Methods and Procedures

For managerial purposes and control, it is necessary that the accounting classifications be such that it is possible to determine separately the gross earnings on retail and wholesale transactions. In order to accomplish this, separate accounts must be kept to record the earnings from, and the expenses in connection with, each class of transaction; and, for Balance-sheet purposes, it is necessary that the asset, liability, and reserve accounts pertaining to each class be identified separately as far as possible.

In discussing the accounting methods and procedures, reference will be made only to such accounts and methods as are peculiar to automobile banks.

Selling Notes Payable: It may be assumed that the automobile bank sells its own note payable of $100,000.00 for the purpose of raising funds. The discount was $1,000.00. The entry would be as follows:

CASH	$99,000.00	
DISCOUNT ON NOTE PAYABLE	1,000.00	
To NOTE PAYABLE		$100,000.00

For note payable discounted.

Purchasing Notes Receivable from Dealers: If the notes purchased are to be used as collateral against which the automobile bank's own collateral notes payable are issued, the notes are deposited with the trustee on the same day the check is sent to the dealer. The amount of such notes is therefore debited to Notes Receivable in Trust Account. If the notes are kept in the company safe, however, the charge would be made to Notes Receivable Not in Trust Account.

When a retail offering is purchased, a check is forwarded to the dealer for the amount of the note, less the financing charge included therein. The financing charge covers a fee for investigation and collection expense and a service charge, as well as interest on the amount of the loan for the time it runs. It will be seen that correct accounting procedure calls for the deferring of a part of this income to extend over the life of the note. The method used to obtain this result is arbitrary. A percentage of the financing charge is determined which it is thought should be credited immediately to an income account to cover preliminary expenses in connection with the purchase of the note. The amount so determined is credited to an account called "Differential" or, by some companies, "Service Charge."

To illustrate the entry made to cover the amount of a check sent to a dealer, let us assume that the amount of the notes purchased by the bank from him is $21,000.00, which represents a balance of $20,000.00 due on the selling price of the cars and a financing charge of $1,000.00. It is determined that $300.00 is to be credited immediately to an income account.

Assuming that half the notes were placed in trust, the effect of the entry would be as follows:

RETAIL NOTES RECEIVABLE IN TRUST	$10,500.00	
RETAIL NOTES RECEIVABLE NOT IN TRUST	10,500.00	
To CASH		$20,000.00
RETAIL DIFFERENTIAL		300.00
RETAIL INTEREST RECEIVED NOT EARNED		700.00
For notes recv'd (detail to be inserted).		

At a later date, the Deferred Income Account is written off.

To illustrate the entry made to cover the amount of a check sent to the factory, to the distributor, or to the dealer for the balance due on a shipment of cars to a merchant, let us assume that the invoice price of the cars is $50,000.00. The shippers drew a sight draft on the consignees for a 15 per cent. down payment ($7,500.00), plus the financing charge, which may be assumed to be $1,000.00, or a total of $8,500.00. The consignee's notes given to the automobile bank were, therefore, $42,500.00. The automobile bank would forward checks to the shippers for the amount of the notes ($42,500.00), less the financing charge of $1,000.00, or $41,500.00.

Assuming that one half of the notes are deposited with the trustee and that the other half are kept in the safe, and further assuming that $300.00 is to be credited immediately to income, the entry to record the amount of these checks is as follows:

WHOLESALE NOTES RECEIVABLE IN TRUST	$21,250.00	
WHOLESALE NOTES RECEIVABLE NOT IN TRUST	21,250.00	
To CASH		$41,500.00
WHOLESALE DIFFERENTIAL		300.00
WHOLESALE INTEREST RECEIVED NOT EARNED		700.00
For notes recv'd (detail to be inserted).		

At a later date, as in the instance of retail notes, the Deferred Income Account is written off.

It should be understood, of course, that the total amount of notes receivable in trust, both wholesale and retail, will, in practice, amount to at least the face value of the automobile bank's collateral notes payable outstanding.

A "Notes Receivable" (N.R.) card is made out for each note purchased. Both retail and wholesale notes are given numbers in different series. On the N.R. card, all the data needed are typed; and on the cards used to record transactions with regard to retail notes, a schedule of dates and instalment payments to be made is recorded. On the wholesale cards, each car financed by the particular notes is listed separately, with the model, serial and motor number of each, and the amount necessary to be paid to release each car.

In connection with the retail notes, a memorandum account is kept with each dealer, his account being debited with the amounts of all retail notes which he has endorsed, and credited with all payments thereon. This record is necessary, due to the dealer's secondary liability on retail notes.

All the N.R. cards are filed in steel tubs, the retail cards being filed alphabetically under the name of the dealer who endorsed the note. The wholesale cards are filed alphabetically by the name of the makers of the notes. The "Retail—in Trust," "Wholesale—in Trust," "Retail—Not in Trust," and "Wholesale—Not in Trust" cards are so stamped, and are filed in separate tubs in order that they can be tied-in, periodically, with the controlling accounts.

Owing to the volume of transactions that must be recorded daily, all records, except General Ledger postings and Journal vouchers, are made by means of billing machines.

Retail Collections: The amounts to be collected covering instalments on retail notes are usually made payable at the automobile bank. They are entered on cash-receipts sheets and are separated according to payments on notes in trust and notes not in trust. Postings must then be made on the N. R. cards, and the new balance outstanding shown on such cards. Credit must also be given to the dealer's account in the memorandum Ledger. A copy of the cash-receipts sheets must be sent to the trustee, so that postings may be made on his records in order to control the actual value of these notes which the trustee holds as collateral for the notes payable issued by the automobile bank.

Assuming $21,000.00 were collected, half applying to notes receivable in trust and half to notes receivable not in trust, the entry made by the automobile bank to record the payments received on retail notes is, in effect, as follows:

CASH	$21,000.00	
To CASH COLLECTIONS ON RETAIL NOTES RECEIVABLE IN TRUST		$10,500.00
RETAIL NOTES RECEIVABLE NOT IN TRUST		10,500.00
For collections (detail to be inserted).		

Assuming that the retail notes receivable in trust have been paid in full, entry is passed as follows:

CASH COLLECTIONS ON RETAIL NOTES RECEIVABLE IN TRUST	$10,500.00	
To RETAIL NOTES RECEIVABLE IN TRUST		$10,500.00
For cancelation of notes receivable at maturity (detail to be inserted).		

Substitution of Retail Collateral: When a retail note which has been placed with the trustee as collateral has been paid in full, it is returned by the trustee to the automobile bank, which sends it to the dealer for transmittal to the dealer's customer (the maker of the note). The automobile bank having received the cash in settlement of the note must place the trustee in possession of other collateral to make good the deficiency in collateral which has arisen through the fact that the trustee bank has surrendered the note in question. When such additional note is turned over to the trustee, entry is passed, the effect of which is as follows:

RETAIL NOTES RECEIVABLE IN TRUST	$xx	
To RETAIL NOTES RECEIVABLE NOT IN TRUST		$xx
For transfer from latter to former (detail to be inserted).		

When an instalment on a retail note is overdue for a time specified in the trust deed, or when the note is not taken up at maturity, and it can no longer be used as collateral, it is returned to the automobile bank and placed in its safe. The N.R. card must then be taken from the "Retail—In Trust" tub and placed in the "Retail—Not in Trust" tub, and an entry is made for the balance due on the particular note, in effect, as follows:

RETAIL NOTES RECEIVABLE NOT IN TRUST	$xx	
To RETAIL NOTES RECEIVABLE IN TRUST		$xx
For transfer from latter to former (detail to be inserted).		

New collateral would be substituted in place of the overdue note, and appropriate entry would be passed charging Retail Notes Receivable in Trust Account and crediting Retail Notes Receivable Not in Trust Account.

Discounting Wholesale Notes Receivable: As has been indicated, funds may be raised through the discounting of dealers' notes which have been purchased. Assuming $10,000.00 of wholesale notes receivable were discounted, the effect of the entry made is as follows:

CASH	$9,000.00	
PREPAID DISCOUNT ON NOTES RECEIVABLE DISCOUNTED	1,000.00	
To WHOLESALE NOTES RECEIVABLE NOT IN TRUST DISCOUNTED		$10,000.00
For notes discounted (detail to be inserted).		

The prepaid discount is subsequently written off.

Wholesale Collections: As explained before, all payments made by dealers against their notes to release cars to them are made to local banks, which in turn forward the amounts to the trustee. Since some of these payments apply on notes discounted by the automobile bank, and as many of the notes have not matured, the banks discounting these notes must be protected against the misapplication of the funds so collected. The protection is secured by having all wholesale notes discounted, made payable at the trustee's office, and, therefore, the trustee has a record of the notes that have been discounted. All the collections the trustee receives from local banks applying on notes that have been discounted, and on wholesale notes held in trust as collateral, are held in trust until the maturity of such notes. The trustee sends a list of collections to the automobile bank accompanied by a check for the collections received on notes which have neither been discounted nor deposited in trust, and which, consequently, must be in the safe of the automobile bank.

The effect of the entries made to record collections by the trustee on wholesale notes, is as follows:

CASH	$11,250.00	
To WHOLESALE NOTES RECEIVABLE NOT IN TRUST		$11,250.00
For check received from trustee (detail to be inserted).		
CASH IN TRUST	31,250.00	
To CASH COLLECTIONS ON WHOLESALE NOTES RECEIVABLE NOT IN TRUST DISCOUNTED		10,000.00
CASH COLLECTIONS ON WHOLESALE NOTES RECEIVABLE IN TRUST		21,250.00
For collections made and retained by trustee (detail to be inserted).		

Postings are then made on the N.R. cards covering only the collections on notes, which are in the safe of the automobile bank, and for which amount a check was received from the trustee.

At maturity of the notes receivable discounted, the trustee will use the cash held in trust to pay the banks which present such notes.

When the trustee notifies the automobile bank of the details of wholesale notes receivable which have been presented and paid, entries are made as follows:

WHOLESALE NOTES REC'V'BLE NOT IN TRUST, DISCOUNTED	$10,000.00	
To CASH IN TRUST		$10,000.00
For notes discounted matured, presented to trustee bank for payment and paid by trustee bank (detail to be inserted).		
CASH COLLECTIONS ON WHOLESALE NOTES RECEIVABLE NOT IN TRUST DISCOUNTED	$10,000.00	
To WHOLESALE NOTES RECEIVABLE NOT IN TRUST		$10,000.00
To apply former to cancelation of latter at time of maturity and payment by trustee bank (detail to be inserted).		

Postings are then made on the N.R. cards.

When a wholesale note that has been discounted and has been paid by the trustee to the presenting bank from the "Cash in Trust" has not been paid by the maker at maturity, the trustee will have such note protested for non-payment and will return it to the automobile bank. No entry is necessary to record the return of the note, but a notation is made on the N.R. card of the fact that the note was protested, and of the balance due, for which amount it was protested.

At the maturity of the notes held in trust, the trustee will forward to the automobile bank a check covering the collections received by it on notes which it was holding in trust. Entries are then made, as follows:

CASH	$21,250.00	
To CASH IN TRUST		$21,250.00
For receipts from trustee (detail to be inserted).		
CASH COLLECTIONS ON WHOLESALE NOTES RECEIVABLE IN TRUST	$21,250.00	
To WHOLESALE NOTES RECEIVABLE IN TRUST		$21,250.00
To apply former to cancelation of latter at time of maturity and payment (detail to be inserted).		

Postings are then made on the N.R. cards.

Substitutions of Wholesale Collateral: As in the case of retail notes, substitutions of collateral are necessary at the time of maturity of wholesale notes receivable. Thus, if a wholesale note has matured and has been paid, when a new note is turned over to the trustee as collateral, entry would be passed, the effect of which is as follows:

WHOLESALE NOTES RECEIVABLE IN TRUST	$xx	
To WHOLESALE NOTES RECEIVABLE NOT IN TRUST		$xx
For transfer of latter to former (detail to be inserted).		

Furthermore, when an instalment on a wholesale note has not been met or if at maturity the maker of the note does not take it up, the note is returned to the automobile bank and entry is passed, in effect, as follows:

WHOLESALE NOTES RECEIVABLE NOT IN TRUST	$xx	
To WHOLESALE NOTES RECEIVABLE IN TRUST		$xx
For transfer from former to latter (detail to be inserted).		

New collateral would be substituted in place of the note on which default was made, and an appropriate entry would be passed charging Wholesale Notes Receivable in Trust Account and crediting Wholesale Notes Receivable Not in Trust Account.

Liquidation of Note Payable: At the maturity of the note payable which was discounted, entry would be passed, in effect, as follows:

NOTE PAYABLE	$100,000.00	
To CASH		$100,000.00
For liquidation of note.		

If the note were renewed, a further entry would be passed charging Cash Account and Discount Account and crediting Notes Payable Account, as follows:

CASH	$99,000.00	
DISCOUNT ON NOTE PAYABLE	1,000.00	
To NOTE PAYABLE		$100,000.00
For note payable discounted.		

Payment of a note might act as a release of a certain amount of notes held as collateral; in this case, appropriate entry would be passed, as follows:

RETAIL NOTES RECEIVABLE NOT IN TRUST	$xx	
WHOLESALE NOTES RECEIVABLE NOT IN TRUST	xx	
To RETAIL NOTES RECEIVABLE IN TRUST		$xx
WHOLESALE NOTES RECEIVABLE IN TRUST		xx
For transfer from latter to former.		

An account is usually found among the assets of an automobile finance company labeled Property Account. This account arises from retail transactions. Under the terms of contracts made with some of the dealers, such dealers can not be held liable for the amounts overdue and unpaid on retail notes which they have endorsed until the automobile bank repossesses the car covered by the note from the purchaser and places it on the dealer's floor.

In other cases, when the amount due has been proved uncollectable from both the purchaser and the dealer, the automobile bank will repossess the car, sell it, and apply the proceeds to the delinquent account. A judgment is secured for the deficiency for possible future collection, and the amount thereof charged against Reserve for Retail Credit Losses Account.

In either case, as soon as title has been cleared to the car repossessed, Property Account is charged for the balance outstanding on the particular note and the proper Notes Receivable Account is credited.

In this paper, I have endeavored to convey an idea of the economic functions, operations, methods of financing, and general accounting procedures of automobile finance companies, and, as a closing thought, present a condensed *pro forma* Balance Sheet of one of these companies.

THE AUTO FINANCE CORPORATION

BALANCE SHEET

as at..........19....

ASSETS		
Cash: In Banks and on Hand		xx
Notes Receivable:		
Wholesale Notes	xx	
Retail Notes	xx	
Property Account	xx	xx
Accounts Receivable:		
Due from Sale of Collateral Notes	xx	
Other	xx	xx
Office Furniture and Fixtures	xx	
Less: Depreciation Reserve	xx	xx
Investments		xx
Deferred Charges:		
Prepaid Discount on Collateral Notes and Wholesale Notes Discounted	xx	
Other	xx	xx
		xx

LIABILITIES		
Collateral Notes		xx
Wholesale Notes Discounted		xx
Accounts Payable		xx
Interest Received in Advance		xx
		xx
Reserves:		
For Credit Losses	xx	
For Prepayment Rebates	xx	xx
Capital Stock		xx
Surplus and Undivided Profits		xx
		xx

The items on the Liabilities side, entitled "Wholesale Notes Discounted," could be shown as a deduction from the item "Wholesale Notes" on the Assets side, and the Reserves could also be deducted from corresponding asset items.

Biographical Sketches of Pace Students Who Have Made Good

Joseph P. Kelly, C.P.A. (Mass.)

MANY of the former students of Pace Institute are engaged in the professional practice of Accountancy. One of these students who has achieved more than a modicum of success is Joseph P. Kelly, a certified public accountant of Massachusetts, now practicing under his own name in Boston.

Joseph P. Kelly was born in Boston (Charlestown district) on December 10, 1890. His early education was secured in the grammar and high schools of that district. After graduating from high school, where he began his study of commercial subjects, Mr. Kelly started his business career in the office of an insurance agent. In 1912, he became a member of the staff of Patterson, Teele, & Dennis, accountants and auditors. To quote Mr. Kelly's own words, "I soon found out that I had but scratched the surface of accounting, even after four years in high school and what studying I had done by myself after leaving high school. As a public accountant, I read the history of business, successful and unsuccessful, as recorded in the books of account. It was in order to be able to read this history intelligently and analytically that I decided to pursue a coördinated course in accounting and related subjects. I enrolled at Pace Institute, in 1912, to secure instruction in the subjects which were going to be of assistance to me in my work."

Mr. Kelly remained with Patterson, Teele & Dennis until 1917, when he enlisted for service in the World War. While with this firm, Mr. Kelly acquired wide and valuable experience. During the war, Mr. Kelly, because of his training, was assigned to cost inspection work in the United States Navy.

After receiving his discharge, in 1919, he was associated with Rupert S. Carven, C.P.A., now City Auditor of Boston. In January, 1923, Mr. Kelly opened his own office for the professional practice of Accountancy.

The sphere of the certified public accountant is summarized briefly by Mr. Kelly, as follows:

"Business men are beginning to accept the certified public accountant as a business adviser. Time and again the accountant, from his investigation or audit of a business, has obtained important facts regarding it which have been of great value and assistance to the

officials of the business. This has resulted in the accountant being frequently called in on matters of importance affecting a client's affairs. Such reliance on the accountant imposes a serious responsibility, in that he must, by constant study and close observation, be prepared to act in the capacity of an adviser. When he has demonstrated his ability, his services are in demand."

Business School Executives Meet at Pace Institute

ON Saturday, January 13, 1923, executives and instructors from many of the leading business schools in the metropolitan district met at Pace Institute, New York, for a luncheon and conference. Luncheon was served at 1 o'clock at the Machinery Club. Following the luncheon, the guests assembled in one of the lecture-rooms of the Institute, and were given a demonstration by Mr. Homer S. Pace, C.P.A., and Mr. Charles T. Bryan, C.P.A., of certain new methods in visual education which have been developed by the Institute during the past few years. The representatives from the various schools joined freely in the discussion which followed the demonstration, and expressed themselves as being much pleased with the methods which Pace Institute has worked out for teaching advanced aspects of business organization by means of specially prepared charts and slides.

Among those who attended the meeting were the following: George J. Cox, Eagan School of Business, Hackensack, N. J.; W. J. McCoach and G. A. Coggan, Browne's Brooklyn Business College, Brooklyn; L. M. Arbaugh, William H. Nussbaum, and John D. Somerville, Drake Business College, Passaic, N. J.; D. H. Frazier and Howard A. Dodd, Drake Business College, Paterson, N. J.; Mr. and Mrs. Elvin Ferris, Eagan School of Business, Hoboken, N.J.; William H. Sutton, Eagan Business School, Union Hill, N. J.; Henry V. Gaines and Messrs. Stephenson and Bethell, Eastman-Gaines School, New York City; E. A. Young and E. E. Conkey, Euclid School, Brooklyn; Miss Sadie E. Brown and Oliver H. Cote, Merchants' & Bankers' Business School, New York City; Mrs. V. M. Wheat, New York School of Secretaries, New York City; F. D. Fleming, Coleman National Business College, Newark, N. J.

Merton Institute Moves to New Quarters

MERTON Institute, conducting classes in vocational counseling and employee selection, which formerly occupied offices and classrooms at 96 Fifth Avenue, New York City, has moved to more commodious quarters in the Bar Building, 36 West 44th Street, New York City.

The Vocational Department of Merton Institute, which advises individuals vocationally with respect to their natural aptitudes and abilities, is also located at the new address. Doctor Holmes W. Merton is president of Merton Institute, and O. H. Keller is general manager.

National C.P.A. Degrees Barred in New York State

C. P. A. certificates must be authorized by the New York State Board of Regents, according to a recent ruling of the Appellate Division. In connection with this ruling, we quote from the New York *Times* of Saturday, January 13, 1923.

"The Appellate Division, yesterday, granted an application by the Attorney General of New York State for an injunction to restrain the National Association of Certified Public Accountants of Washington, D.C., from holding examinations here, for the purpose of granting the degree (C.P.A.). The Attorney General sued when the defendant advertised that examinations would be held at 65 Fifth Avenue for the purpose of awarding diplomas.

"The injunction was denied in the lower court, on the ground that the relief should not be granted until a proceeding brought against the organization on the ground of violation of the laws of New York had been decided. In granting the injunction, the Appellate Division said:

"'The statute expressly prohibits any person, institution, or corporation from granting any diploma, degree, or certificate, and makes the granting of the same a misdemeanor unless authorized by the Board of Regents. There is not the slightest doubt that under the statute a foreign corporation will be restrained from transacting business in this state in violation of the laws of this state.'

"The New York State Society of Certified Public Accountants supported the application of the Attorney General."

NEW JERSEY accountants did themselves proud in celebrating the twenty-fifth anniversary of the organization of the New Jersey Society of Certified Public Accountants. In the banquet-room of the well-known Washington Restaurant, Broad Street, Newark, on the evening of January 12th, the New Jersey accountants gathered in force, and entertained as guests prominent accountants from all parts of the country. Old memories were revived, current problems were discussed, and constructive suggestions were made for the future. A jolly time, and profitable, withal.

Notable among the guests was Colonel Robert H. Montgomery, president of the New York Society of Certified Public Accountants. Colonel Montgomery preached a wholesome doctrine of conservative progress—of the development of practice on the basis of the structure that has already been built by the services that accountants have rendered to the business public.

Frank W. Main, of Pittsburgh, recently elected president of the American Society of Certified Public Accountants, brought greetings from the accountants of Pennsylvania, and many constructive suggestions with respect to the practice of Accountancy. He told of the favorable negotiations that were taking place with respect to the reciprocal recognition by the states of New Jersey, New York, and Pennsylvania of their C.P.A. credentials.

Edward E. Gore, president of the American Institute of Accountants, and chairman of the Illinois Examining Board is a man of vision. He brought the good wishes of the Illinois accountants, reviewed the progress of Accountancy during the last twenty-five years in the Middle West, and drove home many a shaft of wit and sense.

Ferdinand W. Lafrentz, president of the New York State Board of Certified Public Accountants, discussed the development of Accountancy in this country, particularly in New York, and gave many constructive suggestions for the future.

Many other notable men in Accountancy were present. Among them may be mentioned Leonard H. Conant, John E. Cooper, W. Saunders Davies, Charles E. Mather, John B. Niven, James F. Farrell, James F. Hughes, and William H. Compton. All of these accountants, as well as others present, have held important official positions in the various Accountancy societies. A. P. Richardson, the well-known secretary of the American Institute of Accountants, was present.

The key-note of this anniversary dinner was the good-natured fellowship manifested throughout. A great deal of this spirit was due to Mr. James F. Welch, the president of the New Jersey Society, who presided and kept matters on the move from the beginning of the assembly to the singing of Auld Lang Syne. Mr. Welch was ably assisted by his fellow officers of the New Jersey Society, including Mr. Frank G. DuBois, a former president, who acted as the historian of the Society and recounted many of its early vicissitudes and triumphs.

The graduates of Pace Institute were much in evidence. Mr. James F. Hughes and Mr. Wm. H. Compton, members of the New Jersey Board of C.P.A. Examiners, were Pace Institute students at one time, as well as Mr. Theodore A. Crane, secretary of the New Jersey State Society, and Mr. James F. Farrell, secretary of the New York State Society.

We are able to reproduce, above, the picture of the banquet. The picture, however, does not do justice to the banquet, inasmuch as the character of the dining-room did not make it practicable to bring more than half the group within the focus of the camera.

Pace Club Activities

BALTIMORE

ON Thursday evening, January 4, 1923, the first meeting of the year of the Pace Club of Baltimore was held at the City Club Rooms in the Hotel Caswell, Baltimore, Md. The program began promptly at 8 o'clock. Excellent entertainment was furnished by the quartet of the Baltimore and Ohio Glee Club. The meeting was addressed by Charles H. Schnepfe, Jr., C.P.A., director of Baltimore Pace Institute, and by Mr. McCord of the Institute faculty. The following officers were elected:

Daniel L. Clayland	President
Charles Weldon	First Vice-pres.
Herman I. Sachs	Second Vice-pres.
George M. Flentje, Jr.	Third Vice-pres.
Howard A. Schnepfe	Treasurer
Miss J. A. Wener	Secretary

A great deal of enthusiasm was manifest at the meeting, and it is evident that the Baltimore Club is looking forward to a busy spring.

The annual banquet of the Pace Club of Baltimore is scheduled to be held late in the present school year.

WASHINGTON

THE Pace Club of Washington recently organized a bowling club. Much interest has been displayed on the part of the members in this new activity.

The Club held a dance at the Raleigh Hotel recently. It was voted by all present the best dance ever given by the Washington Club.

A card party was recently held in the club-rooms for members and their friends.

The annual banquet of students and graduates of Pace Institute, Washington, under the auspices of the Pace Club, will be held this year at the Raleigh Hotel, on Saturday evening, April 14th. Pace students and graduates who can arrange to be in Washington on that evening should plan to attend this banquet. Many things of unusual interest are promised by the Banquet Committee. Full information may be obtained by addressing the Pace Club of Washington, 715 G Street, N. W., Washington, D. C.

WEST, FLINT & COMPANY, accountants and auditors, 40 Rector Street, New York City, announce that Mr. William H. West, who has for some time been devoting his attention to special matters, has now returned to general practice and has resumed his membership in the firm.

PAUL J. TATE and E. R. EARNEST, students at the Pittsburgh School of Accountancy, conducting Pace Standardized Courses, have joined the professional staff of Arthur Young & Company, accountants and auditors, in their Pittsburgh office.

GERHARD A. HOFGAARD, a student at the Pittsburgh School of Accountancy, conducting Pace Standardized Courses, recently joined the professional staff of Main & Company, certified public accountants, Pittsburgh, Pa.

Field Trips

ON January 24th, a group of students from the Day-School Division of Pace Institute, New York, learned how books and magazines are made by taking a trip of inspection through the large plant of P. F. Collier & Son Co., publishers, New York City. The students made a careful study of the work of each department—composition, plating, book-printing, job-printing, magazine printing, and book-binding.

January 19th, a group of senior students, Day-School Division, Pace Institute, New York, made a trip of inspection through the plant of C. Kenyon & Company, Inc., Brooklyn, N. Y. This company manufactures sport clothes, rubber coats, and automobile tires. The students visited the factory and office, and had explained to them the operations of the various machines and the accounting system in use.

JOHN G. WALLING, Semester D, Pace Institute, Washington, recently accepted a position as junior accountant on the staff of Stoy & Burnham, certified public accountants, Washington, D. C.

EARLE A. CONNOR, formerly a student at Pace Institute, Boston, is now general office manager for H. P. Froman & Company, importers and exporters, 393 Broadway, New York City.

OLIVER B. RESCH, a graduate of Pace Institute, New York, recently accepted a position on the staff of Joseph Froggatt & Company, public accountants, 25 Church Street, New York City.

CLYDE J. McABEE, Pittsburgh School of Accountancy, conducting Pace Standardized Courses, recently accepted a position in the Accounting Department of the Thomas R. Heyward Company, Pittsburgh, Pa.

ANTHONY B. MANNING, C.P.A. (CONN.), member of the American Institute of Accountants, announces the opening of offices at 154 Nassau Street, New York City, for the general practice of Accountancy.

JOHN A. ESSEX, formerly a member of Class E2604, Pace Institute, New York, has been appointed to the Income Tax Division, Bureau of Internal Revenue. Mr. Essex will maintain headquarters in Cleveland, Ohio.

JOHN A. DUFFY, a former student at Pace Institute, New York, was recently appointed to the Income Tax Unit, Bureau of Internal Revenue, Washington, D. C. Mr. Duffy will be stationed, for the time being, in Washington.

R. C. DICKIESON, formerly a member of Class F2702, Pace Institute, New York, sailed for Russia on February 3, 1923. Mr. Dickieson goes directly to Moscow where he will be engaged in important accounting work for the American Relief.

Book Review

RAPID ARITHMETIC, by T. E. O'Conor Sloane: The D. Van Nostrand Company, 8 Warren Street, New York City. $1.50 net.

In the book under consideration, a number of very interesting and easily applied methods of shortening the operations of addition, subtraction, multiplication, and division are given and very clearly explained, both in operation and in principle. The explanation of the theory of exponents and the method of extracting roots higher than the cube are of special interest in connection with the working out of various formulae, which may be necessary in determining rates of depreciation, annuities, compound interest problems, and the like.

There is a tendency, however, as in most books of this kind, to mention applications of the theories of numbers and computations which are of interest to mathematicians, but which have no useful application in every-day work. However, the practical information is sufficient to make the book useful, and the clarity of the explanations is especially to be commended.

H. N. McKINNEY, Semester E, Pace Institute, Washington, has accepted a position as junior accountant in the Washington office of the American Audit Company.

H. M. TURNBURKE, C. P. A. (IND.), recently associated himself in professional Accountancy practice with S. T. McMichael, Pittsburgh, Pa. Mr. Turnburke will devote his particular attention to tax matters. Mr. Turnburke was graduated from Pace Institute, Washington, in July, 1921.

LAWRENCE T. RENKAWEK, Class C117, Pace Institute, Washington, who recently received his discharge from the U. S. Marine Corps, was successful in the recent auditors' examination and has been appointed to the Income Tax Unit, Bureau of Internal Revenue, Washington, D. C.

CARROLL R. ACHERMAN, who was graduated from Pace Institute, Washington, in November, 1922, has accepted a position on the professional staff of Ernst & Ernst, with headquarters in Indianapolis, Ind. Mr. Acherman, for the past five years, has been employed in the office of the auditor for the War Department, Washington, D. C.

HAMPTON D. PERCY, Semester E, Pace Institute, Washington, has been appointed an auditor in the Income Tax Unit, Bureau of Internal Revenue, Washington, D. C.

Mr. Percy was recently married in New Orleans to Miss Mildred St. Martin of that city. THE PACE STUDENT has pleasure in extending congratulations to Mr. and Mrs. Percy. Mr. and Mrs. Percy will make their home in Washington, D. C., until Mr. Percy completes his course at Pace Institute. Mr. Percy is Vice-president of the Pace Club of Washington, and has long been active in student activities at the school.

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Accountants Must Keep in Condition

AT THIS season of the year, accountants are particularly busy. Tax work and the many other services which they must perform for clients who are getting the decks cleared for the business of the new year make it necessary for them to work, frequently, far into the night. Accountants must keep physically fit, else they may break under the strain. They have long been known as a hardy lot, rushing from city to city in Pullman berths, and working during the days in clients' offices. Yet, the press of work incident to this season of the year should constantly remind them of the advantages of being constantly in good physical condition, of being superior to the strain imposed on them. A thought, here, for students looking forward to professional practice.

An Enthusiastic Salesman

AT THE southern end of Battery Park, at the foot of Manhattan Island, there stands, on sunshiny days, a man with a spyglass. For the paltry sum of five cents, he invites you to look through his glass and view at close range the wonders of the harbor—the Statue of Liberty, the barracks on Governor's Island, and the great liners coming up or going down the bay.

He is something of a dramatist and a salesman, this dispenser of visual joys. His manner is brisk and that of a man who thoroughly believes in the service he is rendering. Even the most blasé passer-by is thrilled just the least by his announcement that "for five cents you can see the great Spanish liner sailing down the bay, bound for Cadiz and Barcelona."

I have some friends—salesmen—who would do well to take a walk down to the Battery some noon and absorb a little of the enthusiasm of my friend with the spyglass.

Students Aid Business Progress

LEWIS E. PIERSON, president of the Merchants' Association of New York City, remarked, in the course of a recent address: "To-day, the representative employer is one who recognizes that he is responsible for the well-being of those whose energies he directs. Industry has been humanized to the point where the comfort and well-being of labor, and its protection from unemployment, are problems which take equal rank in executive councils with that of safe-guarding the interests of the stockholder. There is a growing realization to-day that true progress and true prosperity can only be achieved through the cordial coöperation and mutual assistance of those who lead and those who follow."

Coincident with an increased understanding of the procedures and intricacies of modern business organization comes an increased understanding of the problems and responsibilities of management. The thousands of students—employed men and women—all over the United States, who are studying the principles of modern business in evening classes, are attaining this "growing realization," to which Mr. Pierson refers, "that true progress and true prosperity can only be achieved through the cordial coöperation and mutual assistance of those who lead and those who follow." These students learn to view problems through the eyes of management rather than through their own. They realize that as business succeeds they will succeed. Because of their study, they understand the part that their individual work plays in the general scheme of their organization, and because they understand their work, they aim to make it good. They are playing in no inconsiderable way their part in achieving this cordial coöperation between those who lead and those who follow.

Too Much Suspicion

THERE is a vast difference between being conservative and careful—canny, as the Scotchman would say—and being, on general principles, suspicious of everything. A remark frequently heard in New York and in other large cities is the oft-repeated, "You can't put anything over on me." Instead of being the utterance of a wise and careful man, this expression most frequently emanates from those who use it to cover their lack of understanding—their unwillingness or inability to consider carefully and judicially a new idea.

New York newspapers have commented frequently of late upon the man who couldn't give away genuine silver half-dollars for a quarter apiece in Times Square. The man who tried to perform this altruistic act did it on a bet. A crowd gathered, but no one purchased. Every one was too smart to be caught. Besides losing the bet, the man was arrested for peddling without a license.

Suspicion is proper when based, not on general principles, but on facts which have been ascertained by means of careful thought and investigation. Think first, and be suspicious afterward. Have an open mind rather than a closed one. The man on whom nothing can be put over, misses the good as well as the bad. And the good is frequently just what he needs.

The law of habit operates to fix good habits as well as bad habits—being at the office on time is a habit that becomes easier the longer you practice it.

"Sign Here"

By A. Lincoln Lavine, A.B., LL.B., J.D., Law Faculty,
Pace Institute, New York

In this issue of The Pace Student, Mr. Lavine concludes his series of apt anecdotes illustrating the necessity for specific knowledge of the provisions of the Statute of Frauds. The first instalment of "Sign Here" appeared in the February issue.—[Editor]

CONSIDER the case of Smith. Smith is out of a job, and the wolf is howling a funeral dirge at his door.

You go tc the grocer and say, "Let Smith have what groceries he needs, and send me the bill."

You are liable on that contract.

And yet, if you had said, "Let Smith have what groceries he needs, and if he doesn't pay, I will," you wouldn't have been liable for a cent—unless you had said it in writing.

What's the difference, and why the difference?

The difference is this. Under the Statute of Frauds, "a special promise to answer for the debt, default, or miscarriage of another person" must be in writing, or it will not be binding.

If you ask the grocer to send you the bill for groceries consumed by Smith, your obligation is a direct one to the grocer. The debt is yours in the first instance. It never was Smith's at all.

But, if you tell the grocer, "I will pay if Smith doesn't," you promise to *answer for* the debt of another. That promise, under the Statute of Frauds, must be in writing. Otherwise, it will not be binding. That debt is Smith's debt, primarily. It is yours only secondarily, or collaterally, depending on Smith's not paying.

So that where a promise is not original, where it creates, not a *primary,* but a *secondary,* obligation—where, in other words, it is a promise to *answer for* another—it must be in writing, or it will not hold.

Brown was a merchant, and sold Davis a bill of goods. Davis offered him, in payment, his promissory note for Five Hundred Dollars.

"Sorry," said Brown, "but you will have to get some one I know to endorse it."

Davis spoke to his friend, Roberts, who called up Brown on the telephone.

"That note of Davis's," said Roberts, "is perfectly O.K. Don't worry about it, Brown. If Davis doesn't pay it, I will."

Brown took Davis's note. On due date, Davis failed to pay. So Brown turned to Roberts, reminding him of his guaranty.

Roberts was sympathetic, but that was as far as he would go.

"But you guaranteed the note," said Brown.

"What if I did?" was the reply. And when Brown sued Roberts on his guaranty, he learned—at the usual expense for such tuition—that if you want to hold a person on his promise to *answer for* the debt of another, make him put it in writing.

Beardsley and Barger were neighboring farmers. They were good neighbors, as neighbors go. Both were aware that two thousand years ago, Someone had said, "Thou shalt love thy neighbor as thyself." But both were also duly mindful of the injunction, "Trust in God, but keep your flour-barrel full."

And so, when Beardsley said to Barger, one day, "Them thar two pine trees over in your pasture—if you hev no use for them, kin I cut them down for my new trough?"—Barger generously responded, "Certainly, Zach, if you figure they're worth $20.00 to yeh."

Beardsley wanted the trees badly, and they agreed.

The next day "Zach" demanded the axe he had loaned Barger a month ago, and Barger allowed "Zach" was dreaming—he had never borrowed the old axe.

One thing led to another, and Barger finally repudiated his agreement to sell "Zach" the two pine trees. To which "Zach" replied that he would "hev the law" on his neighbor, and started suit.

But the law refused to hold Barger to his contract. It was a contract affecting standing timber. Standing timber, in most states of the United States, is regarded as real property. And the Statute of Frauds requires that every contract for the sale of an interest in real property must be in writing, or it will not be enforced.

Had the trees been *cut* when sold, that would have been another matter. They would then have been personal, not real, property.

It is easy enough to remember that a contract for the sale of any interest in real property must be in writing; but it isn't always so easy to say just when property is real, and when it is personal.

The law says that real property is "anything fixed and immovable"; personal property, anything "not fixed, movable."

Well, several years ago, in Detroit, the General Motors Company moved a six-story brick building a respectable distance from its "fixed" position, business going on as usual during the move.

Was that building, while ambling along to its new location, real or personal property?

How about fixtures—chandeliers, for instance? You're a tenant. You don't like the lighting fixtures supplied by the landlord. So you put in some of your own. Can you sell them, when you move? Or are they part of the realty, belonging to the realty belonging to the landlord?

The answer is, "It depends on the character of the annexation, as determined by the surrounding circumstances."

Were they installed with a view to permanence, or to temporary use?

If the indications point to the former, they are real fixtures—a part of the realty, and belong to the landlord.

If, from the surrounding circumstances, it is apparent that the installations were intended to be temporary only, they are personalty, and removable at the will of the tenant.

A tenant-butcher, on a five-year lease, installed an ice box into the premises, building it into the wall; and when he moved, tried to take the installation with him. He was prevented from doing so. The installation was classed as a fixture, and, as such, a permanent part of the premises.

And if, with the landlord's permission, you make a contract to sell such fixtures, please remember that since they are classed as realty, the contract, under the Statute of Frauds, must be in writing.

It being true, then, that no interest in real property can be transferred without a writing, what must such a writing contain?

Must it be drawn up with an abundance of "whereases" and "wherefores," must it contain all the references to "parties of the first part," "parties of the second part," "metes and bounds," etc., that you find in a deed, or will something else do that is simpler and less technical?

Suppose you have no lawyer around, and you want to clinch a sale or purchase of realty on the spot? What can you do that will hold water in law, that will comply with the requirements of the Statute of Frauds?

We must bear in mind the difference between a *deed,* which is the actual conveyance of title to realty, and a *contract of sale* affecting realty, which is merely a contract to furnish a deed, i.e., to deliver title. The former must be executed with all the formalities, but the latter need have only the following: any words in writing—contract, note, or memorandum—expressing, with reasonable accuracy, the *parties,* the *consideration,* and the *property affected*. That is all. No legal seal is necessary. Just those facts, and the signature of the grantor, or his "lawfully authorized agent."

In 1901, Selah B. Strong sold to one Thomas N. Bayles, by an oral contract, some locust timber standing on premises known as Oakwood, in Suffolk County, Long Island, New York. Strong gave Bayles the following receipt: "Setauket, N. Y., Feb. 14, 1901. Received from Thomas N. Bayles two hundred and twenty-five dollars for locust at Oakwood. SELAH B. STRONG."

Strong then sold the premises to a third party, and denied Bayles admission to the premises for the purpose of cutting down the timber, on the ground that there was not a sufficient writing to satisfy the Statute of Frauds in relation to real property.

The court held that the receipt in question was quite sufficient: it indicated the parties; it expressed the consideration; while not going into details, it designated a sufficiently definite piece of property known in the community; and it was signed.

Suppose you and I happen to be on a ferry boat plying between New York City and Hoboken, and suppose, admiring a diamond scarf pin you are wearing, I offer you a hundred dollars for it, to be paid the following day, and you accept, agreeing to let me have the pin when I hand over the money—do you suppose it would make any difference as to which side of the middle of the North River we were on when we made the contract?

Well, it would.

If we were on the New York side, that contract would be void and unenforceable; if we were on the Jersey side, it would be enforceable beyond any "possible, probable, shadow of doubt."

The explanation lies in the Statute of Frauds.

Every oral contract, says the Statute of Frauds of New York State (and of most states), for the sale of any goods, chattels or things in action (bonds, promissory notes, and the like are "things in action"), is void, if the sale price be Fifty Dollars or over, *unless* the buyer at the time of the contract pays at least part of the purchase price, or the seller delivers at least part of the goods.

But New Jersey's faith in human nature is stronger. Instead of a dead line of $50, she fixes a maximum of $500. Therefore, if your contract of sale be executed in New Jersey, and it involves a sale price of less than $500, it need not be in writing to be enforceable. If it involves a purchase price of $500 or over, the contract of sale must be in writing, unless there is at least a part payment of the purchase price, or a part delivery of the goods.

Suppose goods be sold at public auction. The auctioneer can't stop to execute contracts of sale for each and every article sold at a price in excess of that fixed by the Statute of Frauds. What is he to do?

Says the Statute of Frauds:

"If goods be sold at public auction, and the auctioneer at the time of the sale enters in the sale book a memorandum specifying the nature and price of the property sold, the terms of the sale, the name of the purchaser, and the name of the person on whose account the sale was made, such memorandum is equivalent in effect to a note of the contract of sale, subscribed by the party to be charged therewith."

These, then, are some of the classes of contracts that, under the Statute of Frauds, must be in writing to be enforceable. They are intended to be suggestive, rather than exhaustive, and the reader will be put on his guard when he comes face to face with contracts of this nature.

The Question and Answer Department

This Department does not publish answers to all questions received, but only to those which are deemed to be of general interest to readers of The Pace Student. A communication, in order to receive attention, must contain the name and the address of the person asking the question.

I WILL appreciate it if you will give me technical definitions of the following words, in the economic and accounting sense: *Income, Expenditure.*

Also, differentiate between *cash receipts and disbursements* and *income and expenditure.*

Answer:

The most fundamental and controlling definition of "income" of which we have knowledge is found in decisions of the Supreme Court of the United States. In one decision, the Court holds that "income may be defined as the gain derived from capital, from labor, or from both combined." In a subsequent decision, there is added the following words: "provided it be understood to include profit gained through a sale or conversion of capital assets." Therefore, the complete definition, which controls income taxation, is as follows: "Income may be defined as the gain derived from capital, from labor, or from both combined, provided it be understood to include profit gained through a sale or conversion of capital assets."

From an economic view-point, income is the value increment that arises from the expenditure of personal effort and the use of that part of wealth (capital) that is set aside for the production of wealth.

From the accounting view-point, the definition by the Supreme Court suffices, subject to the inclusion of gifts or other possible items that are not directly the product of personal services, of the use of capital, or of the conversion of capital assets. Speaking generally, and from the view-point of the accountant, "income" consists of the inflowing value that arises from current operations and from possible conversion of capital assets, and consists, specifically, of profits from production and trading, compensation for personal services, rents, interest, royalties, and like items.

The term "expenditure," in the broadest accounting sense, is used to describe a transaction by means of which value is either paid out, or for which a value is to be paid out, either for capital or operating purposes. The most common use of the term, especially when it is associated with the term "income," is to indicate a cost or expense of a current operating nature. For example, the term "Income and Expenditure Account" is used to indicate a statement which presents inflowing value of an income nature, against which the costs or expenses incurred as an incident to obtain the income are displayed.

The term "expenditure," so far as our observation goes, does not have a distinctive meaning from the economic view-point.

A "cash receipt" is an amount received in money or its substantial equivalent, regardless of whether the amount arises from capital or operating transactions. The term "disbursement," inversely, indicates a payment of money or its substantial equivalent, regardless of whether such payment is made for capital or operating purposes. The term "cash receipts and disbursements," when applied to operating transactions, describes a statement in which, for a certain period, the cash receipts and the cash payments, of a person or concern, arising from operating transactions, are set forth. If all income for the period is collected in cash, and if all expenses for the period are paid in cash, the excess of receipts over disbursements will disclose the amount of cash derived as the profit of the period. If the payments exceed the receipts (the excess of payments being made possible by cash on hand at the beginning of the period or by cash derived from sources other than operation), the deficit arising from the excess payments indicates the net operating loss for the period, and also indicates the settlement of the loss by cash payment.

The method of determining income (so called) by the cash-receipts-and-disbursements method for income-tax purposes provides for the inclusion of certain items that are "constructively" received—that is, they are treated as received, though, in fact, they are not actually collected.

It will be apparent that a statement of cash receipts and disbursements is a presentation of the items of cash received and the items of cash disbursed. If it is prepared for operating purposes, the items that are not the result of operating transactions must be excluded. Such a statement is defective from the accounting view-point, because of the fact that it is a record of an asset rather than a statement of operating results, and because of the fact that operating transactions are rarely reduced to the full realization of income and the full payment of all expenses during the accounting period during which such income and expense transactions take place.

A statement of "income and expenditure," on the other hand, is a statement of nominal elements recorded and displayed for the purpose of disclosing the entire amount of income arising during a period, whether actually received in cash or not, and also the entire amount of costs and expenses incurred, whether such expenses are actually paid in cash or not. The balance of the Income and Expenditure Account, therefore, when properly prepared, discloses for the accounting period for which it is prepared a profit or loss result from the transactions of the period.

A complete discussion of the definitions and terms would require many pages. We trust, however, that the foregoing answer, which covers the fundamental matters, will answer for your purposes.

A PARTNERSHIP wishes to set up a reserve fund for contingencies which, according to the agreement, consists of material bought at $10,000.00 and stock in another company valued at $1,000.00. This reserve fund was never set up, and now, at the time an entry must be made, the value of this material has decreased to $7,000.00.

The partnership does not wish to absorb at this time the loss of $3,000.00, but the reserve fund should represent the value for which this material can be disposed of on the market, and so I would wish to set it up at $7,000.00 for the material and $1,000.00 for the stock.

What Journal entries cover this, and how would it appear on the Balance Sheet?

Answer:

In order to set up the fund, entry should be made as follows:

FUND	$8,000.00	
To MATERIALS		$7,000.00
STOCK INVESTMENT		1,000.00
To set up fund.		

We do not see how you can support both of the stipulations with respect to the fund which you mention in your letter. You state that the fund must be set up at the market value of the material, but that the partnership does not wish to absorb the loss of $3,000.00. If the amount transferred from the Material Account to the Fund Account is $7,000.00, the Material Account will have a debit balance of $3,000.00. While the partnership may not wish to charge this $3,000.00 off to profit and loss, the fact remains that it does represent a loss, and conservative practice would require that it not be shown on the Balance Sheet.

IN arriving at net profit, net income, or net revenue, in organizations in which the employees share in the profits, is it customary to create a reserve or in any way to provide for contingencies, such as abnormally small profits in future fiscal periods due to loss or possible change in economic conditions, changing of centers of population, or decrease in demands for one's products? If so, how is the amount determined? Is such an amount an allowable deduction from gross income under Federal income tax practice?

Answer:

It is customary in conservative business organizations to withhold profits from distribution by setting up on the books a Reserve for Contingencies Account, or similar account. This procedure, of course, is not mandatory, but is dictated by the financial needs of an organization. The object of such reserve is, in most cases, the retention of capital in the business against future lean periods.

The amount of such a contingency reserve should not be considered as a current charge against profit and loss; in other words, the profit and loss results of the business for a particular year should be determined without considering the contingency reserve. Such a withholding of profit is often called "reserving" profit. If the reserve is to be set up through a charge against *current* profits, Profit & Loss Account would be charged *after* current profits have been determined, and an appropriate reserve account, such as Reserve for Contingencies Account would be credited. However, it is more customary to make such reserves out of *accumulated* profits rather than out of the profits from any one year. If the latter procedure is adopted, the charge would be to Surplus Account, if the organization is a corporation, or to Capital Account or Capital accounts should the organization be a single proprietorship or a partnership.

THE seventh annual meeting of the American Association of University Instructors in Accounting was held at the Congress Hotel, Chicago, Ill., on December 28 and 29, 1922. Men prominent in university educational circles were present from all parts of the United States.

An exceptionally well-balanced program was presented. Technical papers dealing with various aspects of Accountancy and business education were read and discussed before the convention. At the close of the convention, officers were elected for the ensuing year.

THOMAS A. CULLEN, a former student at Pace Institute, New York, was recently appointed an auditor in the Income Tax Unit, Bureau of Internal Revenue, Washington, D. C. Mr. Cullen reported at Washington for his new duties on February first.

ROLAND VAN SCOY, formerly a student in the Pittsburgh School of Accountancy, conducting Pace Standardized Courses, is now with the Gould, Lee, Webster Shoe Company, Rochester, New York.

HERBERT V. PETERSON, a graduate of Pace Institute, New York, in May, 1922, has accepted a position on the staff of Touche, Niven & Company, accountants, 42 Broadway, New York City.

CHARLES F. IGEL, Pace Institute, New York, who was formerly with the International Branch of the Young Men's Christian Association, 347 Madison Avenue, New York City, has accepted, through the Pace Agency for Placements, Inc., a position as junior accountant with Price Waterhouse & Company, accountants, 56 Pine Street, New York City.

AN EXTENSION STUDENT writes: "Concerning the value of THE PACE STUDENT to me personally, I could not be without it now. It certainly is a great paper, and is of great assistance to me in my lessons. There are subjects discussed fully that I know will come up later in my course. In the Question and Answer Department, every word in its discussions of the various subjects that come up from day to day is a new truth which is well worth reading."

ROBERT GRAY, a former student of the Pace Courses, in Brooklyn, has accepted, through the Pace Agency for Placements, Inc., a position as chief accountant and office manager of the Phenix Cheese Company, 345 Greenwich Street, New York City. Mr. Gray was formerly assistant controller of The Gorham Company, Providence, R. I.

J. A. SMITH and SAM H. LESH, who was formerly the Nebraska State Budget Commissioner, announce the formation of the firm of Smith, Lesh & Smith, accountants, 207 American National Bank Building, St. Joseph, Mo. The new partnership succeeds the firm of Smith, Lovett & Smith, at the same address.

CHARLES KERSHENBAUM, who was graduated from Pace Institute, Washington, in July, 1921, was successful in the last C. P. A. Examinations in North Carolina. Mr. Kershenbaum is an auditor in the Consolidated Return Section of the Income Tax Unit, Washington, D. C. He is also a member of the Accounting Faculty of Pace Institute, Washington.

How to Study—Another Plan

SEVERAL of the recent Day-School Assemblies at Pace Institute, New York, have been devoted to a discussion of the best methods of study. Many interesting and helpful suggestions were advanced by students who had given the matter of planning their study serious and careful thought. Several of the students presented before the assembly their own methods of study. One student, who, to quote his own words, belongs to the ranks of "poor public speakers," set forth in writing his ideas on study methods. It is with a feeling that his suggestions will be of interest to our readers that we quote below, in part, from this student's letter:

"It has fallen to my lot to have the honor of watching that famous artist, Howard Chandler Christy, paint one of his famous pictures. Somehow, that scene has always remained with me; and I have tried to apply the same principles to my method of study that he did to his method of presentation.

"First of all, I noted that he made a hazy, quick, rough, but comprehensible, outline of the figure he was to paint. It struck me as being quite remarkable that as soon as this hazy outline was completed, one could easily tell what the painting was to represent. Upon this outline, he built his masterpiece, adding a touch here, a touch there, but all of which tended toward a common end—a perfect representation.

"When I began my studies at Pace Institute, it came to me that a plan of study similar to that artist's plan of painting would be of immeasurable benefit to me. When I received a text-lecture, my first move was to secure a hazy, quick, rough, but comprehensible, outline of the entire lecture. This finished, I could tell what the lecture covered, in a general way, just as I could tell what the painting outline was to represent.

"Upon the hazy outline of matter, I built my masterpiece. I took the little sentences and phrases that meant so much and were so important, and made a touch here, a touch there, but all of which tended toward a common end—a perfect understanding of what the text wished to convey. Each succeeding lecture received the same treatment, and each succeeding lecture has been conquered with less difficulty.

"I have a small ledger, which I purchased for the sum of ten cents. I have it so marked that each page in the book represents one week. On each page, I have ruled nine T accounts, headed as follows: Study (Home); Study (School); Accounting (Theory); Accounting (Class Proposition); Law; English; Bookkeeping; Written Work (Home); Written Work (School);

"Here is how it works. I use each day's date, just as in regular bookkeeping. If I work a class proposition, and it takes me one hour, I debit Accounting (Class Proposition) and credit Written Work (Home). If I study the Theory of Accounting in School for two hours, I debit Accounting (Theory) and credit study (School). Whatever work I do, I debit and credit some study or written account. At the end of the week, when I take my trial balance, I can see whether or not I have studied as I should. If my credits are rather low, I try to regulate myself during the next week to offset my former negligence. In this way, I can keep a check upon my mental efforts—a sort of Controlling Account.

"These few points have aided me tremendously so far, and I am confident that they will continue to aid me. Perhaps they will do as much for some one else."

TOUCHE, NIVEN & COMPANY, public accountants, 42 Broadway, New York City, announce the admission to the partnership of Edwin H. Wagner, C.P.A., and the amalgamation of the practice of Edwin H. Wagner & Company, of St. Louis, with their own. The St. Louis office of Touche, Niven & Company has been removed to the Arcade Building, and will be under the joint direction of Edwin H. Wagner and Victor H. Stempf as resident partners.

Touche, Niven & Company also announce the admission to partnership of C. A. H. Narlian, C. P. A., who has been associated with them for several years in their New York office.

J. C. BONDURANT, Pace Institute, Washington, has resigned his position as a statitiscian for the Public Utilities Commission, and has accepted a position in the office of the chief accountant of the Chesapeake and Potomac Telephone Company. Mr. Bondurant is well known to many students in New York, Boston, and Newark, because of his work as president of the Pace Club of Washington.

WILLIAM H. NIES, Pace Institute, New York, has accepted, through the Pace Agency for Placements, Inc., a position as assistant to the controller of The Great Atlantic & Pacific Tea Company, in the main office of this corporation at 150 Bay Street, Jersey City, N. J.

William C. Leitzel

WILLIAM C. LEITZEL, a student in Semester E, Pace Institute, Washington, died after a brief illness at his home in Millersburg, Pa., on Saturday, December 30, 1922.

Mr. Leitzel was graduated from the Millersville State Normal School, Millersburg, Pa., and later from Strayer's Business College, Washington, D.C. For some years he was actively engaged in educational work as principal of the borough schools of Manor, Pa; and for the last year and a half as instructor in commercial subjects at Strayer's Business College, Washington, D.C.

Mr. Leitzel had that happy faculty of making friends wherever he went. Quiet and unassuming, he quickly won his way into the hearts of his students, his associates, and his own teachers. Mr. Leitzel's passing leaves a place that can not easily be filled. He will be missed as all men of his stamp are missed when they pass on.

ERNEST H. BUTLER, class A119-2, Pace Institute, Washington, was recently appointed chief accountant of the Consumers Coal Company, Inc., Washington, D.C. Before taking this position, Mr. Butler was in the Accounting Department of the L. A. Snead Company. Mr. Butler has had wide experience in various retail coal organizations.

JACK E. BUCKLEY, Pace Institute, Washington, has accepted a position on the staff of Homer K. Jones & Company, certified public accountants, Memphis, Tenn. Mr. Buckley will specialize in income tax work.

R. H. ROBERTSON, Pittsburgh School of Accountancy, conducting Pace Standardized Courses, was recently placed in charge of the accounting records of a new subsidiary of the South Penn Oil Company.

ANNOUNCEMENT

The firm of Pace & Pace announces the admission to the partnership of Mr. Ralph R. Bishop, C.P.A. (N.Y.), who has been for some time manager of the Accountancy Practice staff of the firm.

Mr. Bishop will continue to devote his time exclusively to matters of Accountancy Practice.

30 Church Street, New York.
February 15, 1923.

THE regular monthly meeting of the New York Chapter of the National Association of Cost Accountants was held at the Machinery Club, 50 Church Street, New York City, on Tuesday, January 16th. J. E. Horn, general auditor of the Worthington Pump and Machinery Corporation, reported on the plans of the Membership Committee. J. P. Jordan, national president of the Association, delivered a short address. W. B. Montgomery, controller of the American Linseed Company, spoke on "Tying Together Cost Records of Segregated Plants." Mr. Montgomery has met with unique success in centralizing record keeping in the home office. He spoke of the possibility of using tabulating machines for vouchers and Journal entries. W. G. Davis, controller of Waldes & Company, discussed "Cost Methods for Very Small Metal Products." It was a meeting of exceptional interest.

The New York Chapter of the National Association of Cost Accountants meets regularly on the third Tuesday of each month at the Machinery Club, New York City. Stuart C. McLeod is the secretary and the business manager of the National Association. His offices are at 130 West 42nd Street, New York City.

HUBERT F. TEITMAN, formerly a student at Pace Institute, New York, was successful in passing the June, 1922, C.P.A. Examinations in New York State.

HARVEY D. HART, Pace Institute, Washington, was successful in the recent examination held by the United States Civil Service Commission for appointment as auditor, Bureau of Internal Revenue, Washington, D. C.

R. M. ABAGNALE, Class F3701, Pace Institute, New York, recently accepted, through the Pace Agency for Placements, Inc., a position as junior accountant with Adams & Watterson, certified public accountants, 342 Madison Avenue, New York City.

KENNETH L. NELSON, Pace Institute, Washington, recently resigned his position in the Interstate Commerce Commission to accept a position as auditor in the Consolidated Returns Section, Bureau of Internal Revenue, Washington, D. C.

MAURICE A. MARTIN, who was graduated from Pace Institute, Washington, in November, 1922, has resigned his position as chief clerk of the Military Intelligence Bureau to join the staff of Stoy & Burnham, certified public accountants, Washington, D. C.

F. W. MALEY and H. C. WILLIAMS, Class F2704, Pace Institute, New York, were successful in the recent United States Civil Service Examination, and have been appointed auditors in the Income Tax Unit, Bureau of Internal Revenue, Washington, D. C. Mr. Maley and Mr. Williams will complete their work in Semester F at Pace Institute, Washington.

Hear Ye! *Hear Ye!*

Eighth Annual Banquet

Students, Graduates, and Friends of

Pace Institute of New York

Grand Ball-room, Hotel Commodore
Saturday Evening, April 21, 1923

The Pace Club, which so ably carried through the banquets of 1921 and 1922, has planned for this year, through its Banquet Committee, a program of entertainment which will provide a minimum of ten thousand laughs an hour. A committee of embryo C.P.A.'s, after finishing a set of solutions for Semester E quizzes, will furnish an attested count.

THE PROGRAM WILL INCLUDE:

Speaker:

Negotiations are under way with a prominent gentlemen "out of the West" to deliver the main address of the evening—a speaker famous for his eloquence and renowned for his wit and humor. What more could we desire?

Entertainment:

When it comes to entertainment before, during, and after the dinner, a program is being arranged that will excel all previous efforts. While we are not sure that our good friends, Gallagher & Shean, or Van & Schenk, will be able to attend in person, we hope to have them with us in spirit and in *parody*.

Dinner:

The Commodore will serve it—no more need be said. Rumor has it that the committee has an inside track with the powers that preside in the kitchen.

The Crowd:

Pace students and graduates; their wives, sweethearts, friends, and relatives; guests of honor from among the leaders of our profession; a crowd of which to be proud—and we are.

Dancing:

The best orchestra we can find and the grand ballroom floor will make a combination that you can't resist. So don't try, but join in the dance.

Songs:

We all sing—come up and join in for the pure fun of it. The best community song leader in the East will be with us.

TICKETS ARE ON SALE NOW

March 1st to April 18th, only. Send for your quota at $3.75 per cover, to

R. G. Lowe
Chairman of the Banquet Committee

The Pace Club
30 Church Street New York City